



SOCIETY OF ACTUARIES

Article from:

News Direct

January 2006 – Issue 52

DANTE'S INFERNO AND RISK MANAGEMENT

BY JAY M. JAFFE

Dante Alighieri's *Inferno* identified seven mortal sins. In case you've forgotten, the seven sins are pride, wrath, envy, lust, gluttony, avarice and sloth. During my career in the direct marketing insurance business I've observed that we've committed several new sins to add to Dante's list.

My favorite sins from among the many I've seen by insurance direct marketers and actuaries are:

- Mixing up lapse and persistency rates
- Ineffective new product development
- Failing to modernize the way business is done
- Losing sight of how and why people buy insurance
- Playing the role of the "800 pound gorilla"
- Not paying commissions on time
- Working on minor rather than "deal-breaker" problems

We could work on correcting these specific sins, but that would take our focus away from understanding our real occupation is being an enterprise risk manager or ERM. From this point forward we need to adopt a wider perspective and understanding of what it means to be in the insurance direct marketing business and to improve how we use the concepts of risk and reward when we make our daily business decisions.

Doing business is, by its very definition, risky. You can choose to take poor risks or good risks. A large part of being an ERM is learning which risks which are worth taking and which should not be accepted. We need to learn to manage not only marketing risks but claim and persistency risks. For some companies a major profitability factor and risk is the level of general administrative costs. Then, there are market-conduct risks, asset-investment risks and any other risk relating to the insurance business.

Being an ERM is not the same as being the manager or an actuary of a direct marketing campaign. It is wider reaching, but if we master the concept of being an ERM, it will enable us to create products and programs with a different and safer outlook. I believe that in the long run, the financial results of looking at this business as a risk manager will be better than if we see ourselves simply as a product manager or an actuary.

In the process of becoming an ERM you will start to recognize that you may be committing one or more of the seven deadly sins I described at the opening of this short article or, better yet, you will begin to see the potential for correcting what you're doing before your actions take you past the point of no return.

If you're not totally convinced about the need to become an ERM, think of the situation in terms of living at the intersection of risk and opportunity. Once you're at this intersection, you have a choice of four directions, but selecting the right road is not always simple and straightforward. But as an ERM you will be able to make a better choice of direction because of your ability to assess the situation from a more global perspective. Without the ERM perspective you will be operating in a world that is more comparable to a single-lane trail at the bottom of a box canyon, which means there is only one way in and one way out. Of course, in the box canyon you don't have to make any choices about which way to head, but you also don't have any the ability to explore new opportunities. ■

Note: this article is derived from the author's presentation to The Insurance Direct Marketing Forum 2005, which took place in Philadelphia in September 2005.



Jay M. Jaffe, FSA, MAAA is president of Actuarial Enterprises, Ltd. in Chicago, Ill. He can be reached at 312.397.0099 or via e-mail at jay@actentltd.com.